

VIRGINIA TOURISM AUTHORITY




Doing Business As

VIRGINIA TOURISM CORPORATION

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*Annual Financial Statements*

For the Year Ended June 30, 2003

Virginia is for Lovers. 

## **AUDIT SUMMARY**

Our audit of the Virginia Tourism Authority for the year ended June 30, 2003, found:

- the financial statements are presented fairly in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of noncompliance with material laws and regulations that are required to be reported.

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October 28, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Virginia Tourism Authority Board Members  
901 East Byrd Street  
Richmond, Virginia 23218-0798

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the General Fund, a major fund, of the **Virginia Tourism Authority**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Virginia Tourism Authority as of June 30, 2003, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis presented on pages five through eight is not a required part of the basic financial statements, but is supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Tourism Authority as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

### Compliance

As part of obtaining reasonable assurance about whether the Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Partnership's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Directors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 17, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

VIRGINIA TOURISM AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2003

The discussion and analysis for the Virginia Tourism Authority's financial performance provides an overview of its financial activities for the year ended June 30, 2003. We believe the information presented is accurate in all material aspects and that all necessary disclosures to enable the reader to obtain an understanding of the Authority's financial activities have been included.

#### GOVERNMENTAL AND ORGANIZATIONAL STRUCTURE

The Virginia General Assembly created the Virginia Tourism Authority in 1999 for the promotion of tourism and film production in the Commonwealth necessary to increase the prosperity of its citizens. It is a public body corporate and political subdivision of the Commonwealth authorized to do business as the Virginia Tourism Corporation.

A fifteen-member board of directors provides policy guidance to the management of the Authority. The Governor appoints twelve members, the Chairman of the Board of Directors and the Executive Director, who reports through the Secretary of Commerce and Trade. The Secretary of Commerce and Trade, Secretary of Finance, and Secretary of Natural Resources also serve on the board.

The Authority is located in Richmond, Virginia. A Washington, D.C. office was maintained until June 30, 2003, when it was closed. An Abingdon, Virginia office was also maintained until its closing in the fall of 2002. In addition, it manages ten state welcome centers located strategically around the state and the Capitol Bell Tower in Richmond to provide information to persons traveling to and through Virginia.

The Authority has four organizational divisions of management, which are Administration and Finance; Marketing and Promotions; Customer Service and Industry Relations; and the Virginia Film Office. Responsibility for each of these areas is vested with managing vice-presidents to oversee Authority activities.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

##### Government-Wide Financial Statements

The government-wide financial statements provide the reader with an overview of the Virginia Tourism Authority (Authority) in a manner similar to private sector business.

The Statement of Net Assets presents information about the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as an indicator of whether the Authority's financial position is improving or declining.

The Statement of Activities presents how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that would result in cash flows in past or future fiscal years. Some examples are accrued interest



earned, but not yet collected (revenue), earned, but unused employee vacation leave (expense) and advance collections for advertising and program fees (revenue).

#### Funds Financial Statements

The financial activities of the Authority are reported within governmental funds. A fund is a set of related accounts used to report resources segregated for specific activities or objectives. The Authority, like other political subdivisions of the Commonwealth of Virginia, uses fund accounting to ensure and demonstrate compliance with financial and legal requirements.

The governmental funds report on essentially the same functions reported as governmental activities within the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of appropriated and earned resources and balances available at the end of the prior fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

#### Reconciliations between Government-Wide and Fund Financial Statements

Two reconciliations clarify the differences between the government-wide financial statements and the fund financial statements. The first, found on the Balance Sheet, explains the difference between the total fund balance on the Balance Sheet and total net assets as shown on the Statement of Net Assets. The second, found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, identifies the differences between the net change in fund balances on the fund-based statement and the change in net assets on the government-wide based statement. Both statements describe in sufficient detail the amounts and reasons for the differences.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### Net Assets

Net assets may serve over time as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by \$959,714 at the close of the fiscal year ended June 30, 2003 as shown below. Total Assets increased by \$50,379 over the prior year primarily in cash and advance deposits for advertising and marketing efforts for late summer and fall campaigns. Total Liabilities increased by \$120,936 largely due to an increased accrued long-term pension liability as of June 30.

	<u>Net Assets</u>	
	<u>FY2003</u>	<u>FY2002</u>
Assets:		
Current and other assets	\$ 1,824,719	\$ 1,727,683
Capital assets	<u>171,923</u>	<u>218,580</u>
Total Assets	<u>1,996,642</u>	<u>1,946,263</u>
Liabilities:		
Other liabilities	380,234	374,130
Long-term liabilities	<u>656,694</u>	<u>541,862</u>
Total Liabilities	<u>1,036,928</u>	<u>915,992</u>

Net Assets:

Invested in capital assets, net of related debt	138,058	173,585
Unrestricted	<u>821,656</u>	<u>856,686</u>

Total Net Assets	<u>\$ 959,714</u>	<u>\$ 1,030,271</u>
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Net assets of the Authority decreased by \$70,557 during the fiscal year. The decrease was primarily attributable to general fund budget reductions of \$4.48 million from Fiscal Year 2002 levels. The Tourism Development department and cooperative marketing grants program were eliminated resulting in a \$2.8 million savings. The Marketing and Promotion program was reduced by \$1 million. A realignment of agency functions was implemented to lessen the impact on core marketing and customer services and reduce administrative costs.

Changes in Net Assets

	<u>FY2003</u>	<u>FY2002</u>
Revenues:		
Charges for services	\$ 620,134	\$ 543,262
Operating grants and contributions	1,134,927	1,054,861
General Fund appropriations	13,739,438	18,217,886
Other	<u>52,205</u>	<u>158,223</u>
Total Revenues	<u>15,546,704</u>	<u>19,974,232</u>
Expenses:		
Administration and Finance	775,901	2,195,856
Marketing and Promotion	7,937,065	8,674,210
Consumer and Visitor Services	1,393,469	1,269,958
Tourism Development	723,394	793,998
Tourism Development-Grants Program	3,100,000	5,875,000
Virginia Film Office	652,432	645,539
Pass-Through Payments	<u>1,035,000</u>	<u>69,610</u>
Total Expenses	<u>15,617,261</u>	<u>19,924,171</u>
Increase (decrease) in Net Assets	(70,557)	50,061
Net Assets, Beginning of Year	<u>1,030,271</u>	<u>980,210</u>
Net Assets, End of Year	<u>\$ 959,714</u>	<u>\$ 1,030,271</u>

General Fund Budgetary Highlights

The Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis provides information on the Authority's original budget and the final budget on which it operated during the fiscal year. The final budgeted revenues and expenditures are compared to cash-basis actual results by revenue source and major program activity. The budgeted amounts represent the agency's anticipated

revenue sources and expenditure plan developed at the beginning of the fiscal year and modified during the year.

## REVENUES

As a political subdivision of the Commonwealth of Virginia, the Authority's primary source of funding is from the General Fund of the Commonwealth appropriated by the General Assembly. The general fund appropriation reported for the year decreased from the prior year by approximately \$4.5 million. Of this decrease, \$1.7 million occurred during the 2002 fiscal year. The Authority modified its revenue plans accordingly. The agency received an additional general fund allotment of \$500,000 from the Governor's Motion Picture Opportunity Fund to promote film production in Virginia. Carryover funds of \$482,000 were used to fund primarily non-recurring program costs.

The Virginia Department of Transportation transfers funds (\$1 million) annually to support the operations of the State's ten Welcome Centers managed by the Authority. Fees are also collected from Virginia attractions and destinations that place promotional brochures and display advertising within these Centers. The brochure and display advertising program exceeded revenue expectations by approximately 18 percent. Other revenue sources include trade-show participation fees, interest on deposits, and miscellaneous sales and reimbursements. The variance in Other Revenue was primarily the result of a \$109,000 increase in recovered marketing funds over the prior fiscal year.

## EXPENDITURES

The Authority's expenditure plan was modified to reflect reductions in appropriated funds from FY2002 levels. The Authority eliminated positions, the marketing grants programs, and some marketing and other discretionary spending to offset the permanent budget reductions. Legislated pass-through appropriations, funds designated for certain entities by the General Assembly were also reduced by \$150,000. The Authority received additional grant funds (\$500,000) from the Governor's Motion Picture Opportunity Fund to attract motion picture production to Virginia, which was included in Pass-Through Payments. Satellite offices in Abingdon, Virginia and Washington, D.C. were closed during the fiscal year to reduce overhead costs.

## Notes To The Financial Statements

The Notes to the Financial Statements provide additional information essential to gain a complete understanding of the financial information presented in the government-wide and fund financial statements. They describe the nature of the Authority's reporting entity and the relationship to the Commonwealth of Virginia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. The notes also provide explanations of accounts with significant balances.

## Request for Information

The financial report provides an overview of the Virginia Tourism Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President, Virginia Tourism Corporation, 901 East Byrd Street, Richmond, Virginia 23218.

## **FINANCIAL STATEMENTS**

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF NET ASSETS  
As of June 30, 2003

	Governmental Activities
Assets:	
Cash and cash equivalents (Note 2)	\$ 1,149,457
Petty cash and travel advances	1,200
Prepaid expenses	674,062
Capital assets, net of accumulated depreciation (Notes 1-C and 5)	171,923
	<hr/>
Total assets	1,996,642
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Liabilities:	
Accounts payable	184,224
Accrued payroll	63,464
Payroll withholdings and sales tax payable	1,051
Unearned revenue (Note 1-D)	131,495
Noncurrent liabilities:	
Compensated absences (Note 1-E and 8)	
Due within one year	223,917
Due in more than one year	129,438
Installment purchases payable (Note 7)	
Due within one year	12,047
Due in more than one year	21,818
Pension liability - due in more than one year (Note 9)	269,474
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Total liabilities	1,036,928
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Net Assets:	
Invested in capital assets, net of related debt	138,058
Unrestricted	821,656
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Total net assets	\$ 959,714
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The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2003

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants & Contributions	Revenue and Changes in Net Assets
Governmental Activities:				
Administration and finance	\$ 775,901	\$ 3,637	\$ -	\$ (772,264)
Marketing and promotion	7,937,065	258,867	-	(7,678,198)
Tourism development	3,823,394	6,045	134,927	(3,695,936)
Consumer and visitor services	1,393,469	351,585	1,000,000	(30,334)
Virginia Film Office	652,432	-	-	(650,468)
Pass-through payments	1,035,000	-	-	(1,035,000)
Total governmental activities	\$ 15,617,261	\$ 620,134	\$ 1,134,927	(13,862,200)
General revenues:				
Revenue provided by the General Fund of the Commonwealth (Note 4)				13,739,438
Interest revenue				52,205
Total general revenues				13,791,643
Change in net assets				(70,557)
Net assets July 1, 2002				1,030,271
Net assets June 30, 2003				\$ 959,714

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUND  
As of June 30, 2003

	<u>General Fund</u>
Assets:	
Cash and cash equivalents (Note 2)	\$ 1,149,457
Petty cash and travel advances	1,200
Prepaid expenses	<u>674,062</u>
Total assets	<u><u>\$ 1,824,719</u></u>
Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 184,224
Accrued payroll	63,464
Payroll withholdings and sales tax payable	1,051
Unearned revenue (Note 1-D)	131,495
Compensated absences (Note 1-E)	<u>13,072</u>
Total liabilities	<u>393,306</u>
Fund balances:	
Unreserved	<u>1,431,413</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in general fund activities are not financial resources and therefore, are not reported in the general fund.	171,923
Noncurrent liabilities including compensated absences, installment purchases payable and pension liability, are not due in the current period and therefore are not reported in the general fund.	<u>(643,622)</u>
Net assets of the governmental activities	<u><u>\$ 959,714</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
For the Fiscal Year Ended June 30, 2003

	<u>General Fund</u>
Revenues:	
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 13,739,438
Revenue provided by the Virginia Department of Transportation	1,000,000
Participation fees	262,471
Welcome Center advertising fees	345,713
Interest revenue	52,205
Other revenue	<u>146,878</u>
Total revenues	<u>15,546,705</u>
Expenditures:	
Administration and finance	763,055
Marketing and promotion	7,875,367
Tourism development	3,803,370
Consumer and visitor services	1,352,867
Virginia Film Office	639,186
Pass-through payments	<u>1,035,000</u>
Total expenditures	<u>15,468,845</u>
Revenues over expenditures	77,860
Fund balance, July 1, 2002	<u>1,353,553</u>
Fund balance, June 30, 2003	<u><u>\$ 1,431,413</u></u>

The accompanying notes are an integral part of the financial statements.



VIRGINIA TOURISM AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2003

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Amounts reported for governmental activities in the statement of activities are different because:

Net increase in fund balances-total governmental fund	\$ 77,860
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and loss on asset disposals exceeded capital outlays in the current period.	(46,658)
The issuance of long-term debt (installment purchases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	11,130
Some expenses reported in the statement of activities (increases in net pension obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(140,187)
The decrease in compensated absences reported in the statement of activities is not a current financial resources and, therefore, is not reported as a financial resource in governmental funds.	<u>27,298</u>
Change in net assets of governmental activities	<u><u>\$ (70,557)</u></u>

The accompanying notes are an integral part of the financial statements.

VIRGINIA TOURISM AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CASH BASIS  
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues:				
Revenue provided by the General Fund of the Commonwealth - (Note 4)	\$ 14,993,968	\$ 13,739,438	\$ 13,739,438	\$ -
Revenue provided by the Virginia Department Transportation	1,000,000	1,000,000	1,000,000	-
Participation fees	202,750	246,750	262,471	15,721
Welcome Center advertising fees	294,000	294,000	348,410	54,410
Interest revenue	130,000	60,000	52,205	(7,795)
Other revenue	6,500	6,500	146,878	140,378
Total revenues	16,627,218	15,346,688	15,549,402	202,714
Expenditures:				
Administration and finance	750,601	965,873	815,624	150,249
Marketing and promotion	7,348,039	7,623,745	7,601,640	22,105
Tourism development	5,366,450	4,002,610	3,904,184	98,426
Consumer and visitor services	1,547,584	1,501,664	1,342,371	159,293
Virginia Film Office	729,544	699,984	645,641	54,343
Pass-through payments	885,000	1,035,000	1,035,000	-
Total expenditures	16,627,218	15,828,876	15,344,460	484,416
Revenues over (under) expenditures	-	(482,188)	204,942	687,130
Fund balance, July 1, 2002	-	482,188	944,665	462,477
Fund balance, June 30, 2003	\$ -	\$ -	\$ 1,149,607	\$ 1,149,607

The accompanying notes are an integral part of the financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# VIRGINIA TOURISM AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Virginia Tourism Authority was established on July 1, 1999, by an act of the General Assembly and operates as an authority in accordance with the Code of Virginia (Sections 2.2-2315 through 2.2-2326). The Authority is authorized to do business as the "Virginia Tourism Corporation" in accordance with Section 2.2-2315. The Authority's major activities are to encourage, stimulate, and promote the tourism and film production industries of the Commonwealth.

Virginia Tourism Authority is a component unit of the Commonwealth of Virginia. A separate report is prepared by the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. Accordingly, the financial statements of the Authority are included in the financial statements of the Commonwealth as a discretely presented component unit.

#### B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Assets and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include 1) charges for services consisting of participation fees and brochure rental fees and 2) a transfer from Department of Transportation for support of Welcome Centers.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due.

The Authority reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all the Authority's financial resources.

C. Capital Assets

Capital assets are defined by the Authority as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of three to ten years.

D. Unearned Revenue

Unearned revenue is comprised of advertising display fees that were received at June 30, 2003, but were not yet earned.

E. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Authority's employees, but not taken at June 30, 2003. Compensated absences were calculated in accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*. This statement requires the accrual of the following: Sick leave earned by employees who, while not currently vested for payment, will probably attain the years of service required to vest for payment and Social Security and Medicare taxes to be paid by the Authority on all accrued compensated absences.

F. Budgets and Budgetary Accounting

The Authority's budget was established primarily by the 2002 Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2003, which is the first year of the biennium ending June 30, 2004. No payments were made to the Authority out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Virginia Tourism Authority bank accounts in accordance with the Code of Virginia, Section 2.2-2322 and expended for purposes as stated in those provisions. The budget is prepared on the cash basis.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and is not categorized as to credit risk. The LGIP funds are held in pooled accounts and accordingly, are also not categorized as to credit risk as defined by Statement 3 of the Governmental Accounting Standards Board.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis - General Fund presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>General Fund</u>
Fund balance, cash basis, June 30, 2003	\$ 1,149,607
Add: Prepaid expenses and other receivables	674,062
Deduct: Accrued expenses and unearned revenues	<u>(392,256)</u>
Fund balance, GAAP basis, June 30, 2003	<u><u>\$ 1,431,413</u></u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation as allotted	\$ 14,993,968
Supplemental appropriation actions:	
Add: Special allotment for Governor's Motion Picture Opportunity Fund	500,000
Less: FY 2002 Budget reductions	(1,708,111)
Net personal service cost	<u>(46,419)</u>
Revenue provided by the General Fund of the Commonwealth	<u><u>\$ 13,739,438</u></u>

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Leasehold improvements, furniture and equipment	\$ 382,760	\$ -	\$ 18,921	\$ 363,839
Less: accumulated depreciation	<u>164,180</u>	<u>43,722</u>	<u>15,986</u>	<u>191,916</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 218,580</u>	<u>\$ (43,722)</u>	<u>\$ (2,935)</u>	<u>\$ 171,923</u>

6. OPERATING LEASE COMMITMENTS

The Authority is committed under various operating leases for office facilities and equipment. Rental expense under operating lease agreements amounted to \$218,005 for the year which included a payment of \$48,391 to terminate a lease for office space abandoned in March 2003. A summary of minimum future obligations under these lease agreements as of June 30, 2003, follows:

<u>Year Ending June, 30</u>	<u>Operating Lease Obligations</u>
2004	\$ 54,342
2005	41,907
2006	<u>11,231</u>
Total future minimum rental payments	<u>\$ 107,480</u>

7. INSTALLMENT PURCHASES OBLIGATIONS

The Virginia Tourism Authority has two installment purchase contracts to finance the acquisition of office equipment. The term of the first contract is for five years ending November 2005, and the second is for five years ending August 2007. Interest rates are 10.31 percent and 4.196 percent respectively. Installment purchases obligations activity for the fiscal year ended June 30, 2003, was as follows:

<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
<u>\$ 44,995</u>	<u>\$ -</u>	<u>\$ 11,130</u>	<u>\$ 33,865</u>

Principal and interest payments for fiscal years subsequent to June 30, 2003 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 12,047	\$ 2,133	\$ 14,180
2005	13,052	1,128	14,180
2006	7,919	213	8,132
2007	<u>847</u>	<u>4</u>	<u>851</u>
Totals	<u>\$ 33,865</u>	<u>\$ 3,478</u>	<u>\$ 37,343</u>

#### 8. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2003, was as follows:

<u>Balance</u> <u>July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
<u>\$ 367,580</u>	<u>\$ 210,401</u>	<u>\$ 224,626</u>	\$ 353,355
		Due within one year	<u>223,917</u>
		Due in more than one year	<u>\$ 129,438</u>

#### 9. PENSION PLAN AND OTHER RETIREMENT BENEFITS

The Authority is a participating employer in a defined benefit plan administered by the Virginia Retirement System. As of June 30, 2003, the Authority's net pension obligation was \$269,474.

##### Plan Description

All full-time and part-time salaried employees of the Authority participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS is an agent and cost-sharing multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

All full-time and part-time salaried employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55 (age 50 for participating law enforcement officers and firefighters) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount based on 1.7 percent of their average final compensation (AFC). An optional reduced retirement benefit is available to members of VRS as early as age 50 with 10 years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides life insurance and health related plans for retired employees. Title 51.1 of the Code of



Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500.

#### Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5 percent of their annual salary to the VRS. The employer may assume this 5.0 percent member contribution. The Authority does pay the member contribution, which amounted to \$137,022 (5.0 percent of total creditable compensation of \$2,740,448). In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2003, was 0.00 percent resulting in no contributions by the Authority for the fiscal year ended June 30, 2003.

### 10. RISK MANAGEMENT

The Authority is exposed to various risk of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Authority is insured for these risks through commercial insurance policies. Further, the Authority is insured for workers compensation and from loss from employee actions by an insurance policy issued by the Chubb Group, the Great Northern Insurance Company. Policy coverage from loss from employee actions is \$50,000 per year with a \$1,000 deductible.

The Authority participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by the Department of Human Resource Management (DHRM). The Authority pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

VIRGINIA TOURISM AUTHORITY  
Richmond, Virginia

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Roy Knox, Director of Finance and Administration

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